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C O N F I D E N T I A L SECTION 01 OF 03 BAKU 000463

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BELGRADE TO DAS BRYZA

E.O. 12958: DECL: 04/18/2017
TAGS: [PREL](#) [PGOV](#) [AJ](#) [ENRG](#) [PINR](#) [TX](#)
SUBJECT: AZERBAIJAN PRESIDENT EAGER TO SUPPLY GAS TO
EUROPE; OVER-COMMITTING A CONCERN

Classified By: Ambassador Anne E. Derse, Reasons 1.4 (b,d)

¶1. (C) SUMMARY. President Aliyev says Azerbaijan is eager to export all the gas it can to Europe, but is unable to commit to exporting 20 bcm o/a 2012. Saying that "it is not reasonable for us to commit to what BP is responsible for delivering," Aliyev told the Ambassador that the matter of how much export gas Azerbaijan will have o/a 2012 is largely in BP's hands. The GOAJ has opened negotiations with BP on Shah Deniz Phase II and ACG deep gas, but Aliyev feels "let down" by BP's operating of Shah Deniz, which is another reason why he is cautious about over-committing Azerbaijan. He has told BP that he wants production on Shah Deniz Phase II expedited. He has told BP that if the company wants to develop ACG deep gas, the GOAJ must be "in control - BP must agree to allow us to be the commercial operator, selling to Europe, and give the GOAJ a decisive voice in decision-making." Aliyev said that SOCAR will also be taking steps to expedite and maximize gas production in the lead-up to 2012. FM Mammadyarov has agreed to coordinate with DAS Bryza on the message the latter will deliver concerning GOAJ gas availability when he meets with the Hungarian PM on April 20th. END SUMMARY.

PRESIDENT ALIYEV ON GAS EXPORTS

¶2. (C) On April 16 the Ambassador met with President Aliyev, following Presidential Chief of Staff Ramiz Mehdiyev's April 13 suggestion to the Ambassador that she and the President review the agenda for the April 23 Security Dialogue (septel). During this meeting she also relayed DAS Bryza's points on energy.

¶3. (C) The Ambassador told Aliyev that Bryza would be meeting Hungarian Prime Minister Ferenc Gyurcsany at the latter's request on April 20th, and that it was important that Bryza be equipped to deliver a strong message on the availability of Azerbaijani gas for Nabucco and other European energy projects. The Ambassador reiterated that there continue to be doubts in Europe about Azerbaijan's willingness and ability to provide adequate gas volumes to support European energy projects like TGI and Nabucco.

¶4. (C) In reply, Aliyev explained he had opened negotiations just that day with BP on Shah Deniz II and ACG deep gas. He said that as yet, "I cannot say we have 20 bcm for export in 2012 - it is not reasonable for us to commit what BP is responsible for delivering." He went on to say that BP "let us down, (it has been a) a very bad

experience." Aliyev said that BP's "political agenda and ours sometimes do not coincide; (on Shah Deniz I) BP promised 6 bcm and we are getting less than 3 bcm. "I cannot make this commitment and not fulfill it." He went on to stress that it is not a question of being willing to be a major supplier to Europe: "we want to export to Europe as much as we can." Azerbaijan is even now endeavoring "to accelerate production as much as possible," in order to be able to export as much as possible while meeting growing demand at home and in Georgia. Because of BP's control over Shah Deniz, and what he clearly sees as a different political agenda on BP's part, he is not sure yet what Azerbaijan will be able to deliver. "I do not want to apologize in 2012 for what BP cannot deliver." He seemed bitter that "we have a chance" to build a true Azerbaijan-EU partnership, but "cannot take advantage of it because of BP."

15. (C) Continuing, Aliyev said that the problem is not Azerbaijan's will to export to Europe, but "time, and BP as the operator." He said that Azerbaijan is taking the following steps to accelerate and maximize gas production and export volumes. First, SOCAR is focusing intensively on increasing domestic production from 4 bcm to 8 bcm to be used domestically so more gas from Shah Deniz can be exported. SOCAR has taken out a USD 200 million loan and will increase Azerbaijan's domestic production this year by 1 bcm and by 3 bcm in 2008, for an overall total by 2012 of 8-9 bcm.

16. (C) Second, Aliyev said he has told BP that Azerbaijan wants to accelerate production as much as possible at Shah Deniz and ACG. He believes that it is technically possible with more investment and changes in BP's work plan for Shah Deniz to produce 12 bcm by 2010 vice 2012, and he has asked

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BP to aim for this production goal. Whether they will depends on the ongoing negotiations with BP. He said by later this week Energy Minister Natiq Aliyev, who is conducting the negotiations with BP, will be able to give us a better idea what Azerbaijan can expect to produce by 2010. He said the best case for Shah Deniz, which is technically possible in his view, would be 15-16 bcm by 2012.

17. (C) Third, Aliyev said he has told BP that if the company wants to develop ACG deep gas, the GOAJ must be "in control - BP must agree to allow us to be the commercial operator, selling to Europe, and give the GOAJ a decisive voice in decision-making." If BP will not accept, Azerbaijan will hire a contractor to help SOCAR develop the deep gas or "do it ourselves - then I can take commitments. I do not want to be in a situation where meeting our commitments does not depend on us. I can dismiss SOCAR officials, but not BP officials." In response to the Ambassador's question, Aliyev affirmed that SOCAR was really capable of filling this role. He said it is hard to say how much ACG/DG will be produced at this stage but if work starts now, in five years, perhaps 5-6 bcm.

18. (C) Aliyev pointed out that while the preceding activities may add up to 20 bcm or more in production by 2012, it will not mean up to 20 bcm available for export. Azerbaijan will need 11 bcm, and Greece and even Turkey will need more Azerbaijani gas, for domestic needs, in 2012, especially given Russia's gas policies. The Russian cutoff last year, he said, was clearly aimed to force Azerbaijan and Georgia to use Azerbaijani gas at home and not export to Europe. He noted in passing that Turkey will not be able to receive gas until July this year. On the other hand, Aliyev pointed out that there is approximately 1.2 trillion cm in Shah Deniz. That, he underscored, adds up to "20 bcm per year for the next 50 years and can make a huge contribution to the energy security of Europe."

19. (C) Aliyev suggested several times that the USG "talk to BP, because we will do everything" to accelerate production and export. He said BP's Head of Exploration and Production

Andy Inglis, now in Baku for the negotiations, had promised to produce several options for proceeding by June.

FM MAMMADYAROV ON GAS EXPORTS

¶10. (C) In an April 17 meeting, the Ambassador relayed the substance of her discussion with President Aliyev to FM Mammadayarov. Mammadayarov was surprised at the detail Aliyev had provided, noting that "he was really very frank with you." The FM seemed relieved that the Ambassador had heard "from the horse's mouth" why it is hard for Azerbaijan to commit to provide 20 bcm for export by 2012, and that "SOCAR says we cannot give commitments on gas that does not belong to us." The Ambassador underscored DAS Bryza's concern that Azerbaijan could lose the Hungarians and Nabucco and Blue Stream II will prevail without a firmer GOAJ commitment, and she noted Bryza's April 19 meeting with the Hungarian PM. The FM agreed that Bryza needs to deliver the strongest possible message to the Hungarian PM at that meeting and asked that Bryza and he coordinate in Belgrade to "find a formula, pin down the agreed language" for Bryza's message for the Hungarian PM. Mammadayarov said that he would get SOCAR and President Aliyev's approval on the message before Bryza's meeting. Mammadayarov also asked that DAS Bryza come with an idea of what he thinks the message should be. He also noted that President Aliyev will meet the OMV CEO April 18 in Baku.

¶11. (C) FM Mammadayarov said that "now is the time" to press BP to be more publicly vocal about its intentions. Now "they are keeping silent, reflecting an undercover struggle" relating to their negotiating objectives on developing ACG deep gas and other agendas. Mammadayarov believes the USG need to push BP hard to "make clear to the Europeans what is BP's position - if BP is on board, will BP put together a strategy and timeframe to produce the volumes needed" for European gas projects?

¶12. (C) Mammadayarov also said it is time to "do as we did with BTC" and raise the international profile on the issue of Caspian gas for Europe, with conferences in Washington,

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Brussels, Athens, "so everyone is talking about it-there has to be more cooking up of the case, with numbers, etc." There will be a reaction just as there was on BTC, he said, noting that DFM Araz Azimov's recent comments in Brussels on gas for Europe were overplayed in the press, and "Lavrov went the next day to Turkmenistan-I think that is why the Turkmen postponed my April visit." The message needs to get out publicly that "it is ok, do not be afraid" to engage in this project. He said he would welcome the opportunity for a focused discussion with Bryza and Ambassador Mann on strategy and next steps.

¶13. (C) Mammadayarov confirmed that the Hungarian PM will visit Baku on May 19. He also said he expected to receive the Greek FM's invitation to Athens from the Greek Ambassador that very day.

¶14. (C) COMMENT: In Embassy's view, the bottom line from these discussions is that Azerbaijan's intention to supply the European energy projects, at the highest level, is crystal clear. Equally clear was President Aliyev's reluctance to risk Azerbaijan's reputation as a reliable supplier by making commitments he cannot keep, and his unhappiness that due to (BP-related) reasons outside its control Azerbaijan is not now in a position to seize the opportunity to develop a strong energy partnership with Europe. Embassy hopes that DAS Bryza and PDAS Mann will be able to visit Baku soon to discuss with Aliyev how we can work with companies and regional partners to ensure that Azerbaijan's goal of becoming a significant energy supplier to Europe becomes a reality. END COMMENT.

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